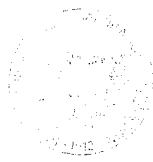


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ARIZONA CORPORATION COMMISSION

September 22, 2004

Chairman Marc Spitzer
Commissioner Bill Mundell
Commissioner Jeff Hatch-Miller
Commissioner Kris Mayes
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

**Re: In the Matter of the Reorganization of UniSource Energy Corporation
Docket No. E-04230A-03-0933**

Dear Colleagues:

I have followed the correspondence on this matter as well as the discussions relating to the divulgence of the E&Y Report and IRR Projections during the hearing.

Commissioner Mundell's September 9 letter states that he believes "*it is essential for the limited partners to disclose to this Commission – under seal if necessary – what they have speculated their return to be.*" Like Chairman Spitzer, I am skeptical of the value of the E&Y report. According to the limited partners, this report contains an estimated guess of future revenue for UniSource and its subsidiaries. It is more than a year old. I agree with the Chairman that there may be better evidence as to UniSource's future revenue streams. Opinions as to UniSource's financial forecasts can be found throughout the evidentiary record including but not limited to the direct testimony of Staff's Joel Reiker and RUCO's Marylee Diaz Cortez.

If the utility is securely "ring fenced", the risk of any change in UniSource revenue would be borne entirely by Saguaro and not by UniSource, TEP or the ratepayers. While I have not formulated an opinion on this matter, my analysis will consider whether conditions forged into the proposed acquisition suitably ring fence the utility to shield it and the ratepayers from the risks of any revenue shortfall.

Pursuant to the terms of the 1999 Settlement, TEP has filed an Application for the Commission to review its revenues to determine if TEP is earning its established rate of return. Based on the evidence in that docket, the Commission may decide to maintain TEP's rates or lower them. I take note that no party to the acquisition docket – including Staff and RUCO – has filed a motion to consolidate these two dockets.

Sincerely,

A handwritten signature in cursive script that reads "Mike".

Mike Gleason
Commissioner

c: Docket Control
Parties to the Docket